

COPY

IURC Cause No. 43190

***City of Evansville
Waterworks District***

FILED

FEB 20 2007

**INDIANA UTILITY
REGULATORY COMMISSION**

***Direct Testimony of
Gerald G. Malone, C.P.A
On Behalf of Petitioner***

February 20, 2007

***Umbaugh
Certified Public Accountants
Indianapolis, Indiana***

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF THE CITY OF)
EVANSVILLE, INDIANA, BY ITS WATER)
AND SEWER UTILITY BOARD, FOR)
AUTHORITY TO ISSUE BONDS, NOTES,)
OR OTHER OBLIGATIONS, FOR)
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR WATER SERVICE,)
AND FOR APPROVAL OF NEW)
SCHEDULES OF WATER RATES,)
CHARGES, AND RULES AND)
REGULATIONS FOR WATER SERVICE,)
AND FOR APPROVAL OF ACCOUNTING)
AND RATEMAKING TREATMENT FOR)
WATER SERVICE TO REFLECT THE)
IMPACT OF REASONABLY FIXED,)
KNOWN AND MEASURABLE CAPITAL)
REQUIREMENTS OVER THE NEXT)
THREE CALENDAR YEARS)

CAUSE NO. 43190

DIRECT TESTIMONY OF GERALD G. MALONE, CPA

February 20, 2007

On Behalf of Petitioner
City of Evansville, Indiana

1 Q. Please state your name and business address.

2 A. My name is Gerald G. Malone and my business address is 8365 Keystone Crossing, Suite
3 300, Indianapolis, Indiana 46240.

4 Q. What is your profession and for whom are you employed?

5 A. I am a Certified Public Accountant and the Executive Partner of H.J. Umbaugh &
6 Associates ("Umbaugh"), Certified Public Accountants, LLP.

7 Q. Can you describe Umbaugh and its area of expertise?

8 A. Umbaugh is a firm of Certified Public Accountants practicing exclusively as independent
9 financial advisors and utility consultants. We have been in business for more than 50
10 years with offices in Indianapolis and Plymouth, Indiana and Lansing, Michigan. We
11 concentrate our practice in providing financial advisory services to various governmental
12 entities and not-for-profit utilities and we regularly conduct accounting studies in
13 connection with changes in utility rates and financial planning for the issuance of
14 municipal bonds.

15 Q. What is your educational experience?

16 A. In August, 1975, I received a Bachelor of Science Degree from the Indiana University
17 School of Business in Bloomington, Indiana, concentrating in Finance. Since then I have
18 completed various accounting courses offered by Indiana University in Indianapolis. I
19 have also completed several professional courses sponsored by the American Institute of
20 Certified Public Accountants, the Indiana CPA Society and other professional
21 organizations.

22 Q. What has been your experience professionally?

1 A. I joined the firm of Umbaugh in September 1975 and, in 1978, completed the
2 requirements to become licensed as a Certified Public Accountant in the State of Indiana.
3 On January 1, 1983, I was admitted to the partnership. During the past thirty-one years
4 with Umbaugh, I have been involved with many professional engagements including
5 financial studies for municipally owned water, electric, gas and sewage utilities, not-for-
6 profit water corporations, regional water and sewer districts and conservancy districts.
7 These studies quite often have involved the determination of utility revenue requirements,
8 cost of service studies and the financial planning associated with the issuance of
9 municipal bonds. I have also participated as a guest speaker and panelist for several
10 programs sponsored by the Indiana Continuing Legal Education Forum, the Indiana
11 Section of the American Water Works Association, the Indiana Rural Water Association,
12 the Indiana Municipal Electric Association and the Indiana Association of Cities and
13 Towns. I have also been a guest lecturer at Indiana University's School of Public and
14 Environmental Affairs.

15 Q. What professional organizations are you associated with?

16 A. I am a member of the American Institute of Certified Public Accountants, The Indiana
17 CPA Society, the Government Finance Officers Association, the American Waterworks
18 Association, and our firm is a member of both the Indiana Rural Water Association and
19 the Indiana Water and Wastewater Alliance. In addition, I presently serve on the Board
20 of Directors of the Indiana Association of Cities and Towns Foundation.

21 Q. Have you testified before as an expert witness?

1 A. Yes, I have testified before the Indiana Utility Regulatory Commission ("IURC") on
2 several previous occasions, and I have testified in connection with proceedings before
3 other administration agencies and courts.

4 Q. Was your firm retained by the City of Evansville ("Petitioner") in connection with these
5 proceedings?

6 A. Yes.

7 Q. Would you briefly describe the purposes for which you were retained and the nature and
8 scope of the services which you were to provide?

9 A. We were retained to assist management with the compilation of the possible future
10 financial requirements of the Petitioner and to make recommendations regarding across-
11 the-board changes in the Petitioner's present schedule of rates and charges for service.
12 We were also retained to provide financing options in light of the Petitioner's desire to
13 construct certain improvements to its waterworks system ("Utility"). Our study was
14 based upon information that we obtained from the Utility records that were made
15 available to us by Mr. Lawson and his staff.

16 Q. Have the results of those studies been summarized in a written report?

17 A. Yes. Our firm prepared an accounting report dated February 20, 2007 ("Accounting
18 Report") summarizing the results of our studies.

19 Q. Please identify Petitioner's Exhibit No. GGM-1.

20 A. Exhibit No. GGM-1 is a copy of our Accounting Report summarizing the results of the
21 accounting services performed for the Petitioner.

22 Q. Was the Accounting Report prepared by you or under your supervision?

1 A. Yes, it was.

2 Q. Would you please explain the Accounting Report to the extent not otherwise self-
3 explanatory?

4 A. The Accounting Report is divided into two sections. The first section (pages 2 through
5 25) contains pro forma financial information for the 12 months ended May 31, 2006,
6 which was the test year used to develop the proposed rates and charges. The second
7 section of the Accounting Report (pages 26 to 34) contains additional unaudited financial
8 information regarding the test year ended May 31, 2006, and comparative financial
9 information for the three preceding calendar years 2003, 2004 and 2005.

10
11 Page 5 of the report contains an estimate of the costs and funding of the capital
12 improvements proposed by the Utility's management. Construction costs, together with
13 contingencies, have been estimated by the consulting engineers at \$25,781,100. Non-
14 construction costs, estimated at \$11,575,400, include allowances for engineering fees,
15 equipment acquisition, financing costs, the funding of a \$3.6 million debt service reserve
16 and an allowance for interest on the bonds capitalized through January 1, 2009. Total
17 costs of the project are shown to be \$37,356,500. The allowance for capitalized interest
18 has been included to permit the phasing in of the proposed rate increase. By capitalizing
19 interest payments through January 2009, there will be no need to recover interest costs on
20 the proposed bonds until 2009.

21

1 Costs of the project will be funded from the proceeds of up to \$36 million of waterworks
2 district bonds and interest to be earned during the construction period. Since the costs of
3 the project are based upon engineering estimates, it is anticipated that construction bids
4 will be received prior to the issuance of the bonds. The actual amount of bonds to be
5 issued can then be adjusted to reflect the actual costs of the improvements. Adjustments
6 to the size of the bond issue can also be made if a debt service surety policy can be
7 acquired; eliminating the need to fund the \$3.6 million debt service reserve account from
8 bond proceeds. The bonds may also be issued in series, if needed, and bond anticipation
9 water may be issued to correspond with the need for construction funds.

10
11 Due to the need to proceed with some of the proposed improvements to meet construction
12 timetables for main relocations imposed by the Indiana Department of Transportation, the
13 Utility is expecting to temporarily borrow \$4.5 million of the funds needed from other
14 City departments and reimburse those funds from bond proceeds as soon as the bonds are
15 issued.

16
17 The amortization of the proposed Bonds is shown on page 6 of the report. Principal
18 repayments on the Bonds are shown paid annually over a twenty-year period beginning
19 January 1, 2011. The first principal payment will be deferred until January 1, 2011 to
20 phase-in the proposed rate increase. Interest is shown to be paid semiannually beginning
21 July 1, 2008 at assumed interest rates ranging from 4.73 percent to 5.54 percent. Actual
22 interest rates will be determined through competitive bidding. Principal payments have

1 been "wrapped around" or structured to allow for level combined annual debt service on
2 all outstanding and proposed bonds.

3
4 Page 7 of the report combines the annual debt service requirements of the 2004 Bonds
5 and the 2005 Refunding Bonds with the proposed Bonds. The pro forma combined
6 average annual debt service is \$5,173,267 for the five bond years January 1, 2015. Once
7 the proposed bonds are sold, the debt service requirement will be adjusted to reflect the
8 actual amount of bonds issued and the actual interest rates.

9
10 Pages 8 through 14 of the Accounting Report present the pro forma annual cash operating
11 expenses. Adjustments to test year expenses have been made for fixed, known and
12 measurable changes. The test year cash operating expenses have been adjusted to reflect
13 the cost of the 2007 payroll adjustments and the current cost of employee benefits and
14 insurance, among others. Significant among cash operating expenses are the adjustments
15 for the expected cost of periodic maintenance requirements. The Utility has an expansive
16 waterworks system including a water treatment plant, 6 water tanks and an extensive
17 distribution system all requiring periodic maintenance. Management has included a
18 \$353,007 annual allowance for periodic plant maintenance. Also significant is the
19 adjustment for the management contract expense with the service provider American
20 Water Operations and Maintenance, Inc. ("American Water"). The City of Evansville
21 recently entered into an amended and revised management agreement with American
22 Water, which becomes effective March 1, 2007. The revised provisions of this new
23 agreement including the transfer of the costs of purchased power, natural gas and

1 chemicals to the City which were previously included in American Water's base fee,
2 have been included in pro forma operating expenses. The test year cash operating
3 expenses of \$12,568,794 have been increased by \$1,722,077 to arrive at pro forma annual
4 cash operating expenses of \$14,290,871, including a \$514,408 payment to the City in lieu
5 of property taxes.

6
7 Page 15 summarizes the normalized annual operating revenues of the Utility. Test year
8 revenues have been adjusted to reflect normalized annual metered sales resulting from the
9 actual number of additional users added during the test year as calculated on pages 16
10 and 17. The test year revenues have also been adjusted for the current number of
11 customers assessed the public and private fire protection charges. Finally, adjustments
12 are made to include the pro forma amount of reimbursements for shared expenses. Test
13 year revenues of \$15,871,295 have been increased by \$234,413 to arrive at normalized
14 annual revenues of \$16,105,708.

15
16 A summary of the pro forma annual revenue requirements of the Petitioner can be found
17 on page 20 of the report. The pro forma annual revenues are shown in three Phases.
18 Phase I reflects those expected requirements and revenues needed during 2008. Phase II
19 reflects those requirements and revenues needed during 2009. Phase III shows those
20 requirements and revenues needed during 2010 and thereafter. The Petitioner is
21 proposing that the rates and charges needed to satisfy these requirements be phased in
22 over this three-year period to minimize the burden on ratepayers.

1 Pro forma cash operating expenses for 2008, or Phase I, is shown on pages 8 to 14,
2 increased by the expected additional Indiana utility receipts taxes of \$22,456. It has been
3 increased by \$222,019 in 2009 and by \$312,374 during Phase II and Phase III,
4 respectively, to provide for additional payments in lieu of taxes as construction is
5 completed and for additional utility receipts taxes resulting attributable to the proposed
6 increase in revenues.

7
8 Debt service requirements for 2008 reflects the expected principal and interest payments
9 of the outstanding bond issues only since interest on the new bonds has been capitalized
10 through January 2009. In 2009, the debt service requirement increases by \$1,916,183 as
11 interest in the proposed bonds becomes payable from current revenues. In 2010, debt
12 service increases by \$744,850 to provide for both principal and interest payments on the
13 proposed bonds.

14
15 The projected annual depreciation allowance is computed at \$2,062,300 for 2008 based
16 upon existing plant in service. In 2009 and 2010, the depreciation allowance increases by
17 \$364,696 and \$616,122, respectively as construction is completed and facilities are
18 placed in service.

19
20 In order to provide revenues to meet these requirements, the Petitioner has proposed that
21 water rates and charges be increased across-the-board by 12.1 percent effective January
22 1, 2008, 16.8% effective January 1, 2009 and 9.6% on January 1, 2010. As shown on

1 page 20, the rates proposed will not be sufficient to fully fund the proposed depreciation
2 allowance. However, in an effort to minimize the financial impact on ratepayers, the
3 Petitioner has chosen to limit the amount of revenues being requested to the amounts
4 shown in the report.

5 Q. Mr. Malone, you discussed earlier in your testimony that you structured the debt service
6 to help phase-in the rate increase over 3 years. What rate increase would be necessary if
7 the debt service is not structured in the way you described and rates and charges were
8 increased in a single step.

9 A. In order to phase in the increase in rates requested, we capitalized interest on the bonds
10 through January 1, 2009 and deferred the first principal payment until January 1, 2011. If
11 the rates are not phased in, the amount of the bond issue would exclude the capitalized
12 interest, reducing the amount of the bonds to \$34 million. That would require an increase
13 in rates of 38.3 percent once the rates became effective and an additional 3.3% upon
14 completion of construction.

15
16 Pages 24 and 25 of the Report show the calculation of the proposed rates and charges.
17 Existing rates have been increased 12.1% across-the-board to arrive at the rates proposed
18 to be effective January 1, 2008, by 16.8% across-the-board to arrive at the rates proposed
19 to be effective January 1, 2009, and by an additional 9.6% across-the-board to arrive at
20 the rates proposed to be effective January 1, 2010, and thereafter.

21 Q. Mr. Malone would you please continue with the explanation of the Accounting Report?

22 A. Yes. The second section of the Accounting Report, which displays unaudited,
23 supplemental financial information, begins on page 26. Included in this section is a

1 comparative statement of net assets of the Utility as of December 31, 2003, 2004, and
2 2005 and as of May 31, 2006. Page 28 of the report contains a statement of revenues,
3 expenditures and other changes in fund net assets comparing the Utility's revenues,
4 expenses and resulting net revenues for the test year with the three preceding calendar
5 years. A comparative statement of cash flows can be found on pages 29 and 30 of the
6 report. This schedule compares the Utility's cash receipts and cash disbursements of the
7 test year with the three preceding calendar years. Pages 31 and 32 compare the account
8 balances of the Petitioner as of May 31, 2006 with the minimum balances either required
9 to be maintained by the outstanding resolutions in effect with respect to the Petitioner's
10 outstanding long-term indebtedness or is typically maintained by municipal utilities such
11 as the Petitioner. Pages 33 and 34 display the amortization schedules of the outstanding
12 2004 Bonds and 2005 Refunding Bonds.

13 Q. Does this conclude the explanation of the Accounting Report?

14 A. Yes it does.

15 Q. Is it your opinion that the proposed financing through the issuance of the Bonds, and the
16 structure of the Bonds, is a reasonable and necessary method of funding the proposed
17 Project?

18 A. Yes it is. The use of tax-exempt debt is an appropriate means to finance the proposed
19 improvements. This method allows the Petitioner the ability to spread the recovery of
20 these costs among the benefited users. It results in lower rates for current customers and
21 provides a mechanism for future customers of the Petitioner to pay for a portion of the
22 facilities that they will use.

1 Q. Is it your opinion are the rates proposed in your Accounting Report are fair, just, non-
2 discriminatory and reasonable and necessary to meet the projected revenue requirements
3 of the utility?

4 A. Yes, it is my opinion they are. The Petitioner has chosen to not conduct a cost-of-service
5 study at this time, due to the significant amount of capital expenditures being proposed
6 and the magnitude of the proposed rate increase. Instead, existing rates and charges have
7 been increased across-the-board to arrive at new rates.

8 Q. Does this conclude your direct testimony in this Cause?

9 A. Yes it does.

Petitioner's Exhibit GGM-1

IURC Cause No. 43190

***City of Evansville
Waterworks District***

***Accounting Report On
Proposed Improvement
Project and Increase
In Rates and Charges***

February 20, 2007

***Umbaugh
Certified Public Accountants
Indianapolis, Indiana***

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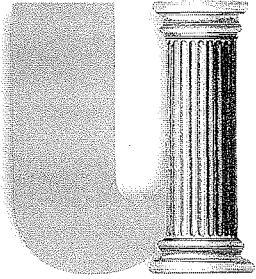
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It's all about experience.

February 20, 2007

Board of Directors
Evansville Water and Sewer Utility
One N.W. Martin Luther King Jr., #104
P.O. Box 19
Evansville, IN 47740-0001

In connection with the Evansville Waterworks District's proposed improvement project and increase in water rates and charges in IURC Cause No. 43190, we have, at your request, compiled this special purpose report for submission to the Indiana Utility Regulatory Commission.

This report has been prepared for the purpose of requesting approval of adjustments to water rates and charges by the Indiana Utility Regulatory Commission and should not be used for any other purpose.

In the preparation of this report, certain financial information for the twelve months ended May 31, 2006 was obtained from the records of the Utility, without audit or review, and accordingly, we express no opinion or any other form of assurance thereon. Further, the pro forma financial information in this report is based upon unaudited financial information for the twelve months ended May 31, 2006 and assumptions provided by management and their consulting engineer or obtained from other sources. This pro forma financial information is prepared for the purpose of showing the estimated financial effects on the Utility's revenue and revenue requirements of the proposed increase in water rates and charges for service and other changes that may be reasonably fixed, known or measured, excluding provisions for future inflation. The actual results achieved may vary from the pro forma information and the variations may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The summarized historical financial statements for the calendar years ended December 31, 2003, 2004, 2005, and the twelve months ended May 31, 2006 were taken from the Utility's internal statements. They are presented as supplemental data and are not intended to constitute an adequate presentation of the financial position, the results of operations nor cash flows in accordance with generally accepted accounting principles. They have not been audited or reviewed by us, therefore, we do not express an opinion or any other form of assurance thereon.

H. J. Umbaugh & Associates

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

GENERAL COMMENTS

The City of Evansville, located in Vanderburgh County, Indiana, owns and operates a water utility ("Utility") and furnishes retail water service and fire protection to the residents of the City and the surrounding area. In addition the Utility provides wholesale water service to the German Township Water District, Inc., Gibson Water, Inc., Elberfeld Municipal Water Utility and the Indiana Cities Water Corporation.

In order to provide sufficient revenues for the anticipated expenses of operation and maintenance including payment in lieu of property taxes, to provide for the payment of principal and interest on the existing and proposed bonds and to fund its annual depreciation allowance, the Board of Directors proposes to increase water rates and charges across-the-board in the aggregate amount of approximately 43.5%, subject to the approval of the Indiana Utility Regulatory Commission.

The City has engaged the engineering firm of HNTB Corporation ("HNTB") to identify necessary improvements to the Utility's existing water treatment process and water distribution system ("Project"). The report prepared by HNTB has identified the need to construct various improvements including additions and replacements to the distribution system, construction of new water storage tank, water main improvements associated with the Indiana Department of Transportation ("INDOT") road project and Veterans Memorial parkway main replacement. Also included in the Project are reconditioning water treatment plant tanks, and an additional set of primary and secondary basins and filters. The improvements to the water treatment process and water distribution system will be funded from the proceeds of the proposed \$36,000,000 of Waterworks District Revenue Bonds ("Bonds").

Estimated Project Costs and Funding – Page 5

This schedule shows the total estimated project costs which include estimated construction costs and contingencies of \$25,781,100 and estimated non-construction costs of \$11,575,400. The construction costs are based on estimates provided by the Utility's consulting engineer.

Estimated construction costs including contingencies amounting to \$25,781,100 include various improvements to the water treatment process and water distribution system. Estimated non-construction costs including engineering fees, an allowance for a cash funded debt service reserve, capitalized interest to phase in the proposed rate increases, and costs of issuance are estimated at \$11,575,400. The Project will be funded from the proceeds of proposed Waterworks District Revenue Bonds in the amount of \$36,000,000 and \$1,356,500 of estimated interest to be earned on bond proceeds during the construction period.

(Continued on the next page)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

GENERAL COMMENTS

Schedule of Amortization of \$36,000,000 Principal Amount of Proposed Waterworks District Revenue Bonds – Page 6

The amortization of the \$36,000,000 principal amount of proposed Waterworks District Revenue Bonds is presented in this schedule. The Bonds will mature annually over a period of approximately twenty years with the final bonds due January 1, 2030. The Bonds are amortized around existing bonds at assumed interest rates ranging from 4.73% to 5.54%. Actual interest rates will be determined by competitive bidding.

Pro Forma Schedule of Combined Bond Amortization – Page 7

The annual principal and interest payments of the outstanding and proposed Bonds are shown on this schedule based upon the assumed interest rates. The combined annual debt service payments for the five bond years ending January 1, 2015 is estimated to average \$5,173,267.

Pro Forma Annual Cash Operating Expenses – Pages 8 - 14

The recorded cash operating expenses for the twelve months ended May 31, 2006 have been adjusted for fixed, known and measurable changes as explained on pages 8 through 14 to arrive at the pro forma annual cash operating expenses. The adjustments exclude a provision for future inflation.

Calculation of Normalized Annual Operating Revenues – Pages 15 - 19

The recorded test year operating revenues have been normalized to reflect the estimated financial effects of new users added to the system during the test period. Fire protection revenues have been adjusted to reflect the current number of hydrant and sprinkler connections. Other revenue is adjusted to reflect the County's reimbursement of shared GIS expenses and Sewer utility portion of shared billing and general expenses.

(Continued on next page)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

GENERAL COMMENTS

Pro Forma Annual Revenue Requirements and Annual Revenues – Pages 20 - 23

The recorded cash operating expenses for the twelve months May 31, 2006, have been adjusted for expected changes as explained on pages 8 through 14 to arrive at the pro forma annual cash operating expenses. Payment in lieu of property tax has been increased due to the completion of the 2004 Project in Phase II and the addition of the proposed Project in Phase III. Phase I debt service is based on the pro forma debt service payments on the outstanding bonds and proposed Bonds for the bond year ending January 1, 2009, net of capitalized interest. Phase II debt service is based on pro forma debt service payments on the outstanding and proposed Bonds for the bond year ending January 1, 2010. Phase III reflects the average annual debt service payments on the outstanding and proposed Bonds for the five years ended January 1, 2015. The allowance for replacements and improvements to capital assets is based upon a 2% composite depreciation expense rate which is added to arrive at total revenues required. The total revenue requirements are reduced by pro forma miscellaneous revenues to provide the pro forma net revenue requirements to be funded through rates and charges.

The pro forma net revenue requirements for Phase I, II and III are \$15,754,303, \$18,257,201 and \$19,930,547 respectively. The City is petitioning for a 12.1% increase in rates and charges for Phase I which results in revenues of \$14,891,065, a 16.8% increase in rates and charges for Phase II which results in revenues of \$17,392,764 and a 9.6% increase in rates and charges for Phase III which results in revenues of \$19,062,469. The resulting shortfalls will result in a reduction in the amount of funds available for replacements and improvements on an annual basis.

Schedule of Present and Proposed Rates and Charges – Pages 24 - 25

This schedule reflects the present and proposed rates and charges for the Evansville Waterworks District. The rates and charges represent a 12.1%, 16.8% and 9.6% increase in rates and charges for Phase I, II and III respectively, as approved and adopted by the Board of Directors per the resolution dated November 14, 2006.

EVANSVILLE WATERWORKS DISTRICT
Evansville, Indiana

PRO FORMA FINANCIAL INFORMATION

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

ESTIMATED PROJECT COSTS AND FUNDING

(Per Consulting Engineer)

ESTIMATED PROJECT COSTS

Estimated Construction Costs:

Water treatment plant improvements	\$10,260,000
Distribution system improvements	8,231,000
INDOT projects	3,005,000
City projects and meters and services	805,100
Water quality projects	490,000
Vehicles	206,000

Sub-total	22,997,100
Construction contingencies	2,784,000

Total Estimated Construction Costs	25,781,100
------------------------------------	------------

Estimated Non-Construction Costs:

Engineering:

Planning	672,000
Design	2,056,000
Construction administration	1,797,000
Property/equipment acquisition	500,000
Cash funded debt service reserve	3,600,000
Capitalized interest through January 1, 2009	1,919,721
Legal, financial advisory, bond issuance costs and general project contingencies	1,030,679

Total Estimated Non-Construction Costs	11,575,400
----------------------------------------	------------

Total Estimated Project Costs	\$37,356,500
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ESTIMATED PROJECT FUNDING

Proposed Waterworks District Bonds	\$36,000,000
Estimated Interest Earnings (1)	1,356,500

Total Estimated Project Funding	\$37,356,500
---------------------------------	--------------

- (1) Assumes \$14,117,200 drawn down ratably over 36 months, \$12,403,000 drawn down ratably over 24 months and capitalized interest on June 30 and December 31, 2008 at an assumed interest rate of 4%.

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

**SCHEDULE OF AMORTIZATION OF \$36,000,000 PRINCIPAL AMOUNT OF
PROPOSED WATERWORKS DISTRICT REVENUE BONDS**

**Principal payable annually January 1st, beginning January 1, 2011.
Interest payable semi-annually January 1st and July 1st, beginning July 1, 2008.
Assumed interest rates as indicated.
Assumes bonds dated January 1, 2008.**

Payment Date	Principal Balance (In thousands)	Principal	Assumed Interest Rate(s) (%)	Debt Service		Bond Year Total
				Interest	Total	
				(-----In Dollars-----)		
07/01/08				\$959,860.25	\$959,860.25	
01/01/09				959,860.25	959,860.25	\$1,919,720.50
07/01/09				959,860.25	959,860.25	
01/01/10				959,860.25	959,860.25	1,919,720.50
07/01/10				959,860.25	959,860.25	
01/01/11	\$36,000	\$735	4.73	959,860.25	1,694,860.25	2,654,720.50
07/01/11				942,477.50	942,477.50	
01/01/12	35,265	770	4.76	942,477.50	1,712,477.50	2,654,955.00
07/01/12				924,151.50	924,151.50	
01/01/13	34,495	815	4.82	924,151.50	1,739,151.50	2,663,303.00
07/01/13				904,510.00	904,510.00	
01/01/14	33,680	850	4.89	904,510.00	1,754,510.00	2,659,020.00
07/01/14				883,727.50	883,727.50	
01/01/15	32,830	885	4.96	883,727.50	1,768,727.50	2,652,455.00
07/01/15				861,779.50	861,779.50	
01/01/16	31,945	930	5.00	861,779.50	1,791,779.50	2,653,559.00
07/01/16				838,529.50	838,529.50	
01/01/17	31,015	970	5.06	838,529.50	1,808,529.50	2,647,059.00
07/01/17				813,988.50	813,988.50	
01/01/18	30,045	860	5.10	813,988.50	1,673,988.50	2,487,977.00
07/01/18				792,058.50	792,058.50	
01/01/19	29,185	885	5.14	792,058.50	1,677,058.50	2,469,117.00
07/01/19				769,314.00	769,314.00	
01/01/20	28,300	925	5.18	769,314.00	1,694,314.00	2,463,628.00
07/01/20				745,356.50	745,356.50	
01/01/21	27,375	970	5.21	745,356.50	1,715,356.50	2,460,713.00
07/01/21				720,088.00	720,088.00	
01/01/22	26,405	1,010	5.26	720,088.00	1,730,088.00	2,450,176.00
07/01/22				693,525.00	693,525.00	
01/01/23	25,395	1,055	5.29	693,525.00	1,748,525.00	2,442,050.00
07/01/23				665,620.25	665,620.25	
01/01/24	24,340	1,100	5.33	665,620.25	1,765,620.25	2,431,240.50
07/01/24				636,305.25	636,305.25	
01/01/25	23,240	1,150	5.36	636,305.25	1,786,305.25	2,422,610.50
07/01/25				605,485.25	605,485.25	
01/01/26	22,090	3,965	5.38	605,485.25	4,570,485.25	5,175,970.50
07/01/26				498,826.75	498,826.75	
01/01/27	18,125	4,175	5.46	498,826.75	4,673,826.75	5,172,653.50
07/01/27				384,849.25	384,849.25	
01/01/28	13,950	4,405	5.49	384,849.25	4,789,849.25	5,174,698.50
07/01/28				263,932.00	263,932.00	
01/01/29	9,545	4,645	5.52	263,932.00	4,908,932.00	5,172,864.00
07/01/29				135,730.00	135,730.00	
01/01/30	4,900	4,900	5.54	135,730.00	5,035,730.00	5,171,460.00
Totals		<u>\$36,000</u>		<u>\$31,919,671.00</u>	<u>\$67,919,671.00</u>	<u>\$67,919,671.00</u>
Average annual debt service for the 5 years ended January 1, 2015.						<u>\$2,656,890.70</u>

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

PRO FORMA SCHEDULE OF COMBINED BOND AMORTIZATION

Payment Date	2004 Bonds (-----Unaudited-----)	2005 Bonds	Proposed Bonds	Total	Bond Year Total
07/01/07	\$510,378.14	\$143,813.75		\$654,191.89	
01/01/08	1,030,378.14	828,813.75		1,859,191.89	\$2,513,383.78
07/01/08	502,578.14	133,538.75	\$959,860.25	1,595,977.14	
01/01/09	1,037,578.14	838,538.75	959,860.25	2,835,977.14	4,431,954.28
07/01/09	493,884.39	122,963.75	959,860.25	1,576,708.39	
01/01/10	1,038,884.39	852,963.75	959,860.25	2,851,708.39	4,428,416.78
07/01/10	484,688.21	111,101.25	959,860.25	1,555,649.71	
01/01/11	1,049,688.21	871,101.25	1,694,860.25	3,615,649.71	5,171,299.42
07/01/11	474,446.88	98,561.25	942,477.50	1,515,485.63	
01/01/12	1,054,446.88	888,561.25	1,712,477.50	3,655,485.63	5,170,971.26
07/01/12	463,571.88	85,131.25	924,151.50	1,472,854.63	
01/01/13	1,063,571.88	900,131.25	1,739,151.50	3,702,854.63	5,175,709.26
07/01/13	451,571.88	70,461.25	904,510.00	1,426,543.13	
01/01/14	1,071,571.88	920,461.25	1,754,510.00	3,746,543.13	5,173,086.26
07/01/14	439,171.88	54,736.25	883,727.50	1,377,635.63	
01/01/15	1,089,171.88	939,736.25	1,768,727.50	3,797,635.63	5,175,271.26
07/01/15	426,171.88	37,700.00	861,779.50	1,325,651.38	
01/01/16	1,096,171.88	957,700.00	1,791,779.50	3,845,651.38	5,171,302.76
07/01/16	412,771.88	19,300.00	838,529.50	1,270,601.38	
01/01/17	1,107,771.88	984,300.00	1,808,529.50	3,900,601.38	5,171,202.76
07/01/17	398,871.88		813,988.50	1,212,860.38	
01/01/18	2,288,871.88		1,673,988.50	3,962,860.38	5,175,720.76
07/01/18	361,071.88		792,058.50	1,153,130.38	
01/01/19	2,341,071.88		1,677,058.50	4,018,130.38	5,171,260.76
07/01/19	318,996.88		769,314.00	1,088,310.88	
01/01/20	2,388,996.88		1,694,314.00	4,083,310.88	5,171,621.76
07/01/20	272,421.88		745,356.50	1,017,778.38	
01/01/21	2,442,421.88		1,715,356.50	4,157,778.38	5,175,556.76
07/01/21	223,596.88		720,088.00	943,684.88	
01/01/22	2,498,596.88		1,730,088.00	4,228,684.88	5,172,369.76
07/01/22	172,409.38		693,525.00	865,934.38	
01/01/23	2,557,409.38		1,748,525.00	4,305,934.38	5,171,868.76
07/01/23	118,746.88		665,620.25	784,367.13	
01/01/24	2,623,746.88		1,765,620.25	4,389,367.13	5,173,734.26
07/01/24	60,818.75		636,305.25	697,124.00	
01/01/25	2,690,818.75		1,786,305.25	4,477,124.00	5,174,248.00
07/01/25			605,485.25	605,485.25	
01/01/26			4,570,485.25	4,570,485.25	5,175,970.50
07/01/26			498,826.75	498,826.75	
01/01/27			4,673,826.75	4,673,826.75	5,172,653.50
07/01/27			384,849.25	384,849.25	
01/01/28			4,789,849.25	4,789,849.25	5,174,698.50
07/01/28			263,932.00	263,932.00	
01/01/29			4,908,932.00	4,908,932.00	5,172,864.00
07/01/29			135,730.00	135,730.00	
01/01/30			5,035,730.00	5,035,730.00	5,171,460.00
Totals	<u>\$37,057,339.14</u>	<u>\$9,859,615.00</u>	<u>\$67,919,671.00</u>	<u>\$114,836,625.14</u>	<u>\$114,836,625.14</u>

Average annual debt service for the 5 years ended January 1, 2015.

\$5,173,267.49

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

PRO FORMA ANNUAL CASH OPERATING EXPENSES

See Explanation of Adjustments, pages 9 to 14.

No inflation adjustment made.

Cash operating expenses for the twelve months
ended May 31, 2006 (unaudited)

\$12,568,794

Adjustments:

(1)	Salaries and wages	266,966
(2)	FICA	24,900
(3)	PERF	48,499
(4)	Health and life insurance	102,092
(5)	Workman's compensation	3,313
(6)	Teamster's scholarship fund	(218)
(7)	Periodic maintenance	353,007
(8)	Non-recurring items	(288,861)
(9)	Contractual services	1,268,699
(10)	Insurance	17,303
(11)	IDEM regulatory fee	(36,237)
(12)	PILT	(37,386)

Total Pro Forma Cash Operating Expenses

\$14,290,871

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

PRO FORMA ANNUAL CASH OPERATING EXPENSES

(Explanation of Adjustments)

Adjustment 1 - Salaries and Wages

To adjust test year expense to reflect 2007 pay rates which represented a 3% in wages (except for board members), 1 new employee and the minimum number of union employees, per utility management and union contracts.

Pro forma salaries and wages	\$3,655,691
Less test year expense	<u>(3,388,725)</u>
Adjustment	<u>\$266,966</u>

Adjustment 2 - FICA

To adjust test year FICA expense to reflect pro forma payroll expense.

Pro forma payroll	\$3,655,691
Times FICA rate	<u>7.65%</u>
Pro forma FICA expense	279,660
Less test year expense	<u>(254,760)</u>
Adjustment	<u>\$24,900</u>

Adjustment 3 - PERF

To adjust test year PERF expense to reflect pro forma payroll expense (eligible for PERF).

Pro forma payroll	\$3,636,016
Times PERF rate	<u>9.25%</u>
Pro forma PERF expense	336,331
Less test year expense	<u>(287,832)</u>
Adjustment	<u>\$48,499</u>

Adjustment 4 - Health and Life Insurance

To adjust the test year to reflect pro forma health and life insurance expense, per City Controller.

Pro forma annual health and life insurance	\$1,005,076
Less test year expense	<u>(902,984)</u>
Adjustment	<u>\$102,092</u>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT
PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

(Cont'd)

Adjustment 5 - Workman's Compensation

To adjust the test year to reflect pro forma workman's compensation, per City Controller.

Pro forma workman's compensation	\$46,084
Less test year expense	<u>(42,771)</u>
Adjustment	<u>\$3,313</u>

Adjustment 6 - Teamster's scholarship fund

To adjust the test year to reflect the pro forma teamster's scholarship fund expense, per the teamster's contract and Utility budget

Pro forma expense	\$624
Less test year expense	<u>(842)</u>
Adjustment	<u>(\$218)</u>

Adjustment 7 - Periodic Maintenance

To adjust the test year to allow for periodic maintenance on the pumps, filter media, reservoir sealing, tank maintenance, booster stations and traveling screens, per utility management.

I. Pump Maintenance

a. High service pumps (\$2,000 each per year, for 3 pumps)	\$6,000
b. Low service pumps (\$3,000 each per year, for 6 pumps)	18,000

II. Filter Media

(\$7,000 for 22 filters over 3 years)	51,333
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III. Reservoir Sealing

Campground reservoir (20,000,000 gallons) (\$14,600 every ten years)	<u>1,460</u>
Sub-total	<u>\$76,793</u>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
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EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

PRO FORMA ANNUAL CASH OPERATING EXPENSES

(Explanation of Adjustments)

Adjustment 7 - Periodic Maintenance (cont'd)

Sub-total carried forward \$76,793

IV. Tank Maintenance

a.	Cleaning and inspection (2 tanks per year)	9,714
b.	Tank painting:	
1.	Lincoln Ave. tank (500,000 gallons) (\$235,000 every ten years)	23,500
2.	Volkman tank (1,500,000 gallons) (\$750,000 every ten years)	75,000
3.	Darmstadt tank (1,000,000 gallons) (\$465,000 every ten years)	46,500
4.	Killian reservoir (4,000,000 gallons) (\$455,000 every ten years)	45,500
5.	Upper Mt. Vernon tank (500,000 gallons) (\$250,000 every ten years)	25,000
6.	Grim Road tank (500,000 gallons) (\$200,000 every ten years)	20,000

V. Booster Stations

1.	Lincoln station (\$5,000 every year, for 3 pumps)	5,000
2.	Old Boonville station (\$1,000 every year, for 1 pump)	1,000
3.	Weinbach station (\$1,000 every year, for 2 pumps)	1,000
4.	Stallings station (\$6,000 every year, for 3 pumps)	6,000
5.	Campground station (\$4,000 every year, for 2 pumps)	4,000
6.	First Ave. station (\$1,000 every year, for 2 pumps)	1,000
7.	Killiam station (\$6,000 every year, for 4 pumps)	6,000
8.	Barker station (\$1,000 every year, for 2 pumps)	1,000

VI. Traveling Screens Maintenance

(\$2,000 each per year, for 3 screens) 6,000

Adjustment \$353,007

Adjustment 8 - Non-recurring Items

To eliminate expenditures that are considered non-recurring in nature.

<u>Date</u>	<u>Expense Category</u>	<u>Description</u>	<u>Amount</u>
July, 2005	Admin and Gen Other	Removal and disposal of fuel tanks	(\$5,505)
July, 2005	Admin and Gen Other	Removal and disposal of fuel tanks	(4,954)
July, 2005	Admin and Gen Other	Removal and disposal of fuel tanks	(576)
November, 2005	Admin and Gen Cont. Legal	Legal settlement	(210,000)
February, 2006	Admin and Gen Other	Removal and disposal of fuel tanks	<u>(4,108)</u>
Sub-total			<u><u>(\$225,143)</u></u>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

Adjustment 8 - Non-recurring Items (Cont'd)

Sub-total carried forward			(\$225,143)
February, 2006	Admin and Gen Other	Removal and disposal of fuel tanks	(2,232)
February, 2006	Admin and Gen Other	Removal and disposal of fuel tanks	(1,248)
February, 2006	Admin and Gen Other	Removal and disposal of fuel tanks	(886)
March, 2006	Cont Serv Misc. Consultants	Contract review	(5,020)
March, 2006	Cont Serv Misc. Consultants	IURC rate case - assumes bond issue funding	(26,800)
April, 2006	Cont Serv Oper Mgmt	Employee vehicle repairs	(7,452)
April, 2006	Cont Serv Misc. Consultants	Contract review	(13,564)
May, 2006	Cont Serv Misc. Consultants	Contract review	(6,516)
Adjustment			<u><u>(\$288,861)</u></u>

Adjustment 9 - Contractual Services

To adjust the test year to reflect pro forma contractual services expense, per the contractual service agreements and utility management.

(A) Pro forma operations management contract with American Water, Inc:

Pro forma annual amount: *

Base fee	\$3,194,071
Electric, natural gas and chemicals	<u>1,971,723</u>

Pro forma expense	5,165,794
Less test year expense	<u>(3,981,914)</u>

Sub-total \$1,183,880

* Based on the American Water, Inc. management agreement approved by the Board on January 9, 2007.

(B) Pro forma contractual services with Environmental Management Corporation:

Current monthly customer service and billing expense	\$83,626
Current monthly utility planning and engineering expense	<u>55,131</u>

Sub-total	138,757
Times 12 months	<u>12</u>

Sub-total	1,665,084
Times CPI adjustment (minimum annual increase per the agreement)	<u>103%</u>

Pro forma expense	1,715,037
Less test year expense	<u>(1,625,785)</u>

Sub-total \$89,252

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
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EVANSVILLE (INDIANA) WATERWORKS DISTRICT
PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

(Cont'd)

Adjustment 9 - Contractual Services (Cont'd)

Sub-totals carried forward		\$1,273,132
(C) Current bi-weekly GIS contractual services	\$12,500	
Times 26 weeks	<u>26</u>	
Pro forma expense	325,000	
Less test year expense	<u>(324,372)</u>	
Sub-total		628
(D) Current GIS internet service contract	\$24,984	
Less test year amount	<u>(19,387)</u>	
Sub-total		5,597
(E) Pro forma sonitrol security service and ESRI contract	\$34,577	
Less test year expense	<u>(41,086)</u>	
Sub-total		(6,509)
(F) Normalized American Water security system reimbursements (12 payments)	\$74,464	
Less test year expense	<u>(62,053)</u>	
Sub-total		12,411
(G) Eliminated contractual services expense for contract employee		<u>(16,560)</u>
Adjustment		<u><u>\$1,268,699</u></u>

Adjustment 10 - Insurance

To adjust the test year to reflect pro forma general liability insurance and automobile insurance, per City Controller.

Pro forma general liability and automobile insurance expense	\$270,441
Less test year expense	<u>(253,138)</u>
Adjustment	<u><u>\$17,303</u></u>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
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EVANSVILLE (INDIANA) WATERWORKS DISTRICT
PRO FORMA ANNUAL CASH OPERATING EXPENSES
(Explanation of Adjustments)

(Cont'd)

Adjustment 11 - IDEM Regulatory Fee

To adjust the test year to reflect pro forma IDEM regulatory fee expense (during the test year 2 IDEM fees were paid).

Number of customer connections at 5/31/06	59,774
Times annual fee per connection	<u>\$0.95</u>
Pro forma expense	56,785
Less test year expense	<u>(93,022)</u>
Adjustment	<u><u>(\$36,237)</u></u>

Adjustment 12 - PILT

To adjust the test year to provide an allowance for payment in lieu of taxes.

Capital assets in service at 5/31/06 (unaudited)	\$103,502,103
Less accumulated depreciation at 5/31/06 (unaudited)	<u>(37,169,626)</u>
Estimated Net Assessed Value	66,332,477
Less estimated capital assets not within corporate limits (25%)	<u>(16,583,119)</u>
Sub-total	49,749,358
Times corporate tax rate of \$1.179 per \$100 (net of PTRC of 12.30%)	<u>1.0340</u>
Pro forma payment in lieu of taxes	514,408
Less test year expense	<u>(551,794)</u>
Adjustment	<u><u>(\$37,386)</u></u>

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

CALCULATION OF NORMALIZED ANNUAL OPERATING REVENUES

	12 Months Ended 5/31/06 (Unaudited)	Adjustments	Ref.	Normalized Annual Revenues
<u>Operating Revenues</u>				
Residential	\$6,822,970	\$30,761	(1)	\$6,853,731
Commercial and industrial	4,897,692	17,902	(2)	4,915,594
Fire protection	1,496,092	18,317	(3)	1,514,409
Forfeited discounts	107,638			107,638
Other	304,316	37,387	(4)	341,703
Sewer utility portion of general expenses	2,242,587	130,046	(5)	2,372,633
Totals	<u>\$15,871,295</u>	<u>\$234,413</u>		<u>\$16,105,708</u>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

CALCULATION OF NORMALIZED ANNUAL OPERATING REVENUES

Adjustment (1)

To adjust test year residential revenues to normalize for the estimated financial effects of approximately 471 new users added to the system from the beginning of the test year (based on billing records).

<u>Billing Cycle</u>	<u>Increase/ (Decrease) In Users (A)</u>	<u>Times Estimated Additional Monthly Bills</u>	<u>Additional Monthly Bills</u>	<u>Estimated Monthly Residential Bill (B)</u>	<u>Adjustment</u>
June 2005	38		0	\$9.92	\$0
July	132	1	132	9.92	1,309
August	35	2	70	9.92	694
September	90	3	270	9.92	2,678
October	(5)	4	(20)	9.92	(198)
November	(31)	5	(155)	9.92	(1,538)
December	(108)	6	(648)	9.92	(6,428)
January 2006	47	7	329	9.92	3,264
February	(102)	8	(816)	9.92	(8,095)
March	20	9	180	9.92	1,786
April	146	10	1,460	9.92	14,483
May	209	11	2,299	9.92	22,806
Totals	<u>471</u>		<u>3,101</u>		<u>\$30,761</u>

(A) Per utility personnel and monthly billing summaries.

(B) Estimated monthly bill assuming average residential consumption of 4,915 gallons priced at present rates (average bill calculated assuming 5/8" meter).

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

CALCULATION OF NORMALIZED ANNUAL OPERATING REVENUES

Adjustment (2)

To adjust test year commercial revenues to normalize for the estimated financial effects of approximately 48 new commercial users added to the system from the beginning of the test year (based on billing records).

<u>Billing Cycle</u>	<u>Increase/ (Decrease) In Users (A)</u>	<u>Times Estimated Additional Monthly Bills</u>	<u>Additional Monthly Bills</u>	<u>Estimated Monthly Bill (B)</u>	<u>Adjustment</u>
June 2005	4		0	\$102.30	\$0
July	14	1	14	102.30	1,432
August	8	2	16	102.30	1,637
September	(1)	3	(3)	102.30	(307)
October	16	4	64	102.30	6,547
November	3	5	15	102.30	1,535
December	(1)	6	(6)	102.30	(614)
January 2006	(8)	7	(56)	102.30	(5,729)
February	0	8	0	102.30	0
March	6	9	54	102.30	5,524
April	0	10	0	102.30	0
May	7	11	77	102.30	7,877
Totals	<u>48</u>		<u>175</u>		<u>\$17,902</u>

(A) Per utility personnel and monthly billing summaries.

(B) Estimated monthly bill assuming average commercial consumption of 76,549 gallons priced at present rates (average bill calculated assuming 1" meter assuming consumption for the 12 months ended 12/31/05).

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

CALCULATION OF NORMALIZED ANNUAL OPERATING REVENUES

Adjustment (3)

To adjust the test year fire protection revenues to reflect the current number of connections at the present rates and charges per information provided by utility personnel.

(A) Fire Protection Service - Inside City Limits:

Fire Protection Charge Customer Count as of 5/31/06			Times Existing Rate Per Month	Revenue Per Month	Revenue Per Year
5/8	inch meter	39,589	\$1.23	\$48,694	\$584,328
1	inch meter	1,227	1.71	2,098	25,176
1 1/2	inch meter	67	2.19	147	1,764
2	inch meter	1,062	3.53	3,749	44,988
3	inch meter	88	13.37	1,177	14,124
4	inch meter	212	17.06	3,617	43,404
6	inch meter	61	25.57	1,560	18,720
Sub-totals				\$61,042	\$732,504

(B) Fire Protection Service - Outside City Limits:

Fire Protection Charge Customer Count as of 5/31/06			Times Existing Rate Per Month	Revenue Per Month	Revenue Per Year
5/8	inch meter	16,160	\$2.47	\$39,915	\$478,980
1	inch meter	1,007	3.36	3,384	40,608
1 1/2	inch meter	3	4.50	14	168
2	inch meter	340	6.75	2,295	27,540
3	inch meter	11	26.97	297	3,564
4	inch meter	55	34.84	1,916	22,992
6	inch meter	27	51.69	1,396	16,752
Sub-totals				\$49,217	\$590,604

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(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

CALCULATION OF NORMALIZED ANNUAL OPERATING REVENUES

Adjustment (3) (Cont'd)

(C) Flat Rate Sprinklers:

Fire Protection Charge Customer Count as of 5/31/06		Times Existing Rate Per Annum	Revenue Per Year	
1	inch connection	4	\$1.92	\$8
2	inch connection	13	10.64	138
3	inch connection	1	29.43	29
4	inch connection	130	60.29	7,838
6	inch connection	368	166.06	61,110
8	inch connection	208	340.96	70,920
10	inch connection	8	595.53	4,764
12	inch connection	31	939.49	29,124
Sub-totals		763		173,931
Totals				1,497,039
Plus test year split services and fire plug fees				17,370
Less test year amount				(1,496,092)
Adjustment				\$18,317

Adjustment (4)

To adjust the test year for the reimbursement from the County for its pro forma portion of shared GIS expenses per utility's proposed budget.

Pro forma County reimbursement	\$271,470
Less test year amount	(234,083)
Adjustment	<u>\$37,387</u>

Adjustment (5)

To adjust the test year for the reimbursement from the sewer utility for its pro forma portion of shared billing and general expenses per utility's proposed budget.

Pro forma sewer utility reimbursement	\$2,372,633
Less test year amount	(2,242,587)
Adjustment	<u>\$130,046</u>

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

**PRO FORMA ANNUAL REVENUE REQUIREMENTS
AND ANNUAL REVENUES**

See Explanation of References, pages 21 to 23.

<u>Annual Revenue Requirements:</u>	<u>12 Months Ended 05/31/06 (Unaudited)</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Phase I Pro Forma (1/1/08)</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Phase II Pro Forma (1/1/09)</u>	<u>Adjustments</u>	<u>Ref.</u>	<u>Phase III Pro Forma (1/1/10)</u>
Operation and maintenance expense	\$12,568,794	\$1,722,077	(1)	\$14,290,871			\$14,290,871			\$14,290,871
Additional payment in lieu of taxes			(2)		\$188,548	(2)	188,548	\$290,034	(2)	478,582
Additional Indiana utility receipts tax		22,456	(3)	22,456	33,471	(3)	55,927	22,340	(3)	78,267
Total Operating Expenses	12,568,794	1,744,533		14,313,327	222,019		14,535,346	312,374		14,847,720
Debt service	2,270,323	241,911	(4)	2,512,234	1,916,183	(4)	4,428,417	744,850	(4)	5,173,267
Allowance for depreciation	1,407,683	654,617	(5)	2,062,300	364,696	(5)	2,426,996	616,122	(5)	3,043,118
Total Revenue Requirements	16,246,800	2,641,061		18,887,861	2,502,898		21,390,759	1,673,346		23,064,105
Less interest income	(225,705)	(61,313)	(6)	(287,018)			(287,018)			(287,018)
Less forfeited discounts	(107,638)		(7)	(107,638)			(107,638)			(107,638)
Less sewer portion of general expenses	(2,242,587)	(130,046)	(7)	(2,372,633)			(2,372,633)			(2,372,633)
Less other operating income	(304,316)	(37,387)	(7)	(341,703)			(341,703)			(341,703)
Less other nonoperating income	(60,192)	35,626	(8)	(24,566)			(24,566)			(24,566)
Net Revenue Requirements	\$13,306,362	\$2,447,941		\$15,754,303	\$2,502,898		\$18,257,201	\$1,673,346		\$19,930,547
<u>Annual Revenues:</u>										
Residential	\$6,822,970	\$860,062	(9)	\$7,683,032	\$1,290,749	(9)	\$8,973,781	\$861,483	(9)	\$9,835,264
Commercial and industrial	4,897,692	612,689	(9)	5,510,381	925,744	(9)	6,436,125	617,868	(9)	7,053,993
Fire protection	1,496,092	201,560	(9)	1,697,652	285,206	(9)	1,982,858	190,354	(9)	2,173,212
Total Annual Operating Revenues	\$13,216,754	\$1,674,311		\$14,891,065	\$2,501,699		\$17,392,764	\$1,669,705		\$19,062,469
Revenues Remaining (Shortfall)				<u>(\$863,238)</u>			<u>(\$864,437)</u>			<u>(\$868,078)</u>
Percentage Increase Requested		<u>12.1%</u>			<u>16.8%</u>			<u>9.6%</u>		

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

PRO FORMA ANNUAL REVENUE REQUIREMENTS
AND ANNUAL REVENUES
(Explanation of References)

Adjustment 1

See "Pro Forma Annual Cash Operating Expenses" pages 8 to 14.

Adjustment 2

To provide an allowance for payments in lieu of property taxes. Phase I assumes pro forma amount as calculated on page 14.
 Phases II and III are calculated as follows:

	<u>Pro Forma</u>	
	<u>Phase II</u>	<u>Phase III</u>
Additional capital assets upon completion of the 2004 Project:		
CWIP at 5/31/06 (unaudited)	\$7,822,782	
Plus bond proceeds not yet expended at 5/31/06 (unaudited)	10,412,000	
Additional amount from proposed projects		<u>\$30,806,100</u>
Sub-totals	18,234,782	30,806,100
Less amount assumed outside City limits for distribution system improvements (25%)		<u>(2,756,376)</u>
Sub-totals	18,234,782	28,049,724
Times net corporate tax rate (divided by \$100)	1.0340	1.0340
Adjustments	<u>\$188,548</u>	<u>\$290,034</u>

Adjustment 3

To provide an allowance for additional Indiana Utility Receipts tax. Calculated as follows:

	<u>Pro Forma</u>		
	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>
Additional URT from rate increase	\$22,822	\$35,521	\$23,708
Plus eligible normalized revenue URT	951		
Less estimated increase in URT for wholesale and exempt revenues	<u>(1,317)</u>	<u>(2,050)</u>	<u>(1,368)</u>
Adjustments	<u>\$22,456</u>	<u>\$33,471</u>	<u>\$22,340</u>

Adjustment 4

Phase I is based on the pro forma debt service payments on the outstanding bonds for the bond year ending January 1, 2009, net of capitalized interest. Phase II reflects debt service on the outstanding and proposed Bonds for the bond year ending January 1, 2010. Phase III reflects the average annual debt service payments on the outstanding and proposed Bonds for the five bond years ending January 1, 2015, calculated as follows:

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>
2004 Bonds	\$1,540,156	\$1,532,769	\$1,528,380
2005 Bonds	972,078	975,928	987,996
Proposed Bonds		<u>1,919,720</u>	<u>2,656,891</u>
Totals	<u>\$2,512,234</u>	<u>\$4,428,417</u>	<u>\$5,173,267</u>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
 comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

PRO FORMA ANNUAL REVENUE REQUIREMENTS
AND ANNUAL REVENUES
(Explanation of References)

Adjustment 5

To provide an allowance for replacements and improvements equal to the pro forma annual depreciation expense, calculated as follows:

	<u>Pro Forma</u>		
	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>
Capital Assets:			
Capital assets in service @ 5/31/06 (unaudited)	\$103,502,103	\$103,502,103	\$103,502,103
Less land	(387,100)	(387,100)	(387,100)
CWIP at 5/31/06 (unaudited)		7,822,782	7,822,782
Balance of 2004 bond proceeds (unaudited)		10,412,000	10,412,000
Proposed projects			30,806,100
			<hr/>
Sub-totals	103,115,003	121,349,785	152,155,885
Times 2% composite depreciation expense rate	2%	2%	2%
			<hr/>
Pro forma depreciation allowance	<u>\$2,062,300</u>	<u>\$2,426,996</u>	<u>\$3,043,118</u>

Adjustment 6

Interest income normalized based on investment of available fund balances at current interest rates. The construction account funds are not included in the interest rate calculation since those interest earnings are used to fund project costs. Calculated as follows:

	<u>Pro Forma</u>
Balances available to invest (unaudited):	
Operating fund - available*	\$973,870
Operating fund - half of minimum balance	893,180
Consumer meter deposit fund	955,000
Sinking fund - available	228,685
Bond and interest account - half of minimum balance	524,715
Proposed debt service reserve	3,600,000
	<hr/>
Sub-total	7,175,450
Times current certificate of deposit interest rate	4.0%
	<hr/>
Adjustment	<u>\$287,018</u>

* Net of \$513,107 payment to Warrick County.

Adjustment 7

See "Calculation of Normalized Annual Operating Revenues" pages 15 to 19.

Adjustment 8

Normalized other nonoperating income for Phases I, II and III calculated as follows:

Test year other nonoperating income	\$60,192
Less reimbursement for overpayment to BPW for Weinbach Project	<u>(35,626)</u>
Pro Forma Other Nonoperating Income	<u>\$24,566</u>

(Continued on next page)

(The Accountants' Compilation Report and the accompanying
comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

PRO FORMA ANNUAL REVENUE REQUIREMENTS
AND ANNUAL REVENUES
(Explanation of References)

Adjustment 9

<u>Operating Revenues</u>	<u>12 Months Ended 5/31/2006 (Unaudited)</u>	<u>Normalize*</u>	<u>Sub-totals</u>	<u>12.1% Increase</u>	<u>Phase I Pro Forma</u>
Residential	\$6,822,970	\$30,761	\$6,853,731	\$829,301	\$7,683,032
Commercial and industrial	4,897,692	17,902	4,915,594	594,787	5,510,381
Fire protection	1,496,092	18,317	1,514,409	183,243	1,697,652
Totals	<u>\$13,216,754</u>	<u>\$66,980</u>	<u>\$13,283,734</u>	<u>\$1,607,331</u>	<u>\$14,891,065</u>

* Normalized additional operating revenues as calculated on page 15.

<u>Operating Revenues</u>	<u>Phase I Pro Forma</u>	<u>16.8% Increase</u>	<u>Phase II Pro Forma</u>	<u>9.6% Increase</u>	<u>Phase III Pro Forma</u>
Residential	\$7,683,032	\$1,290,749	\$8,973,781	\$861,483	\$9,835,264
Commercial and industrial	5,510,381	925,744	6,436,125	617,868	7,053,993
Fire protection	1,697,652	285,206	1,982,858	190,354	2,173,212
Totals	<u>\$14,891,065</u>	<u>\$2,501,699</u>	<u>\$17,392,764</u>	<u>\$1,669,705</u>	<u>\$19,062,469</u>

(The Accountants' Compilation Report and the accompanying
 comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

(A) <u>Monthly Service Charge</u>		<u>Present (1)</u>	<u>Proposed</u>		
			<u>Phase I (2)</u>	<u>Phase II (3)</u>	<u>Phase III (4)</u>
<u>Meter Size:</u>					
5/8 - 3/4	inch meter	\$2.25	\$2.52	\$2.94	\$3.22
1	inch meter	2.68	3.00	3.50	3.84
1 1/4	inch meter	2.95	3.31	3.87	4.24
1 1/2	inch meter	3.16	3.54	4.13	4.53
2	inch meter	4.33	4.85	5.66	6.20
3	inch meter	13.11	14.70	17.17	18.82
4	inch meter	16.37	18.35	21.43	23.49
6	inch meter	23.97	26.87	31.38	34.39
8	inch meter	32.64	36.59	42.74	46.84
10	inch meter	42.37	47.50	55.48	60.81

(B) Volume Charge (In addition to monthly service charge)

Consumption per Month

First	20,000	gallons	\$1.56	\$1.75	\$2.04	\$2.24
Next	280,000	gallons	1.21	1.36	1.59	1.74
Next	700,000	gallons	1.10	1.23	1.44	1.58
Next	2,000,000	gallons	0.97	1.09	1.27	1.39
Over	3,000,000	gallons	0.73	0.82	0.96	1.05

(C) Fire Protection Service

Monthly Surcharge for fire protection

Inside City Limits:

(Calculated based on actual number of connections.)

5/8	inch meter	\$1.23	\$1.38	\$1.61	\$1.76
1	inch meter	1.71	1.93	2.25	2.47
1 1/2	inch meter	2.19	2.49	2.90	3.18
2	inch meter	3.53	3.99	4.66	5.11
3	inch meter	13.37	15.14	17.68	19.38
4	inch meter	17.06	19.27	22.50	24.66
6	inch meter	25.57	28.90	33.75	36.99

- (1) Present rates and charges approved by IURC pursuant to Cause No. 42176 on February 18, 2004. Current tariff was approved on November 15, 2004.
- (2) Phase I rates and charges represent a 12.1% across-the-board rate increase in present rates and charges.
- (3) Phase II rates and charges represent a 16.8% across-the-board rate increase in Phase I rates and charges.
- (4) Phase III rates and charges represent a 9.6% across-the-board rate increase in Phase II rates and charges.

(Continued on next page)

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

SCHEDULE OF PRESENT AND PROPOSED RATES AND CHARGES

(C) <u>Fire Protection Service (Cont'd)</u>		Present (1)	Proposed		
			Phase I (2)	Phase II (3)	Phase III (4)
<u>Outside City Limits:</u>					
(Calculated based on actual number of connections.)					
5/8	inch meter	\$2.47	\$2.76	\$3.22	\$3.53
1	inch meter	3.36	3.86	4.51	4.94
1 1/2	inch meter	4.50	4.58	5.36	5.89
2	inch meter	6.75	7.99	9.34	10.23
3	inch meter	26.97	30.32	35.41	38.81
4	inch meter	34.84	38.58	45.07	49.39
6	inch meter	51.69	57.88	67.60	74.09

Private Connections, each per annum:

1	inch meter	\$1.92	\$2.15	\$2.51	\$2.75
2	inch meter	10.64	11.93	13.93	15.27
3	inch meter	29.43	32.99	38.53	42.23
4	inch meter	60.29	67.59	78.95	86.53
6	inch meter	166.06	186.15	217.42	238.29
8	inch meter	340.96	382.22	446.43	489.29
10	inch meter	595.53	667.59	779.75	854.61
12	inch meter	939.49	1,053.17	1,230.10	1,348.19

(D) Non-Recurring Charges:

Reconnection Charge	\$10.00	\$10.00	\$10.00	\$10.00
Bad Check Charge	15.00	15.00	15.00	15.00
Customer Deposit	15.00	15.00	15.00	15.00
Late Payment Charge		10% of 1st \$3.00: 3% of remainder of bill.		

Connection Charge:

5/8 - 3/4 inch meter	\$700.00	\$700.00	\$700.00	\$700.00
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- (1) Present rates and charges approved by IURC pursuant to Cause No. 42176 on February 18, 2004. Current tariff was approved on November 15, 2004.
- (2) Phase I rates and charges represent a 12.1% across-the-board rate increase in present rates and charges.
- (3) Phase II rates and charges represent a 16.8% across-the-board rate increase in Phase I rates and charges.
- (4) Phase III rates and charges represent a 9.6% across-the-board rate increase in Phase II rates and charges.

(The Accountants' Compilation Report and the accompanying comments are an integral part of this statement.)

EVANSVILLE WATERWORKS DISTRICT
Evansville, Indiana

UNAUDITED SUPPLEMENTAL FINANCIAL DATA

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

COMPARATIVE STATEMENT OF NET ASSETS
(Unaudited)

ASSETS	As of December 31st			As of
	2003	2004	2005	May 31, 2006
Current Assets:				
Operating	\$1,238,823	\$3,385,725	\$3,787,404	\$3,273,336
Accounts receivable (net of allowance):				
Customer	799,134	916,523	939,044	869,829
Miscellaneous			37,514	37,525
Interest	1,034	1,878	836	25,996
Advances for bad checks	5,008	6,570	3,448	214
Interfund receivables	267,622	313,261	490,585	493,679
Prepays	56,984	66,389	67,909	427
Total Current Assets	2,368,605	4,690,346	5,326,740	4,701,006
Non-Current Assets:				
Restricted Assets:				
Bond and interest cash and cash equivalents	844,705	1,682,489	1,658,395	1,051,328
Bond and interest investments	187,361	187,361	187,361	187,361
Debt service reserve cash and cash equivalents			39,426	39,426
Debt service reserve investments	1,134,006	1,134,006		
Construction fund cash and cash equivalents		17,922,289	11,378,000	10,412,000
Service charge due petitioners	1,500	1,500	1,500	1,500
Deposits on new extension estimates	21,055	21,055	21,055	21,055
Customer deposits cash and cash equivalents		276,092	2,573	4,000
Customer deposits investments	917,021	660,000	945,000	951,000
Retainage cash and cash equivalents	49,823	349,440	5,304	5,304
Cash with fiscal agent		116,637	502,674	93,637
Interest receivable		55,110	29,330	49,446
Customer deposits receivable	25,399	31,586	38,140	41,290
Total Restricted Assets	3,180,870	22,437,565	14,808,758	12,857,347
Deferred Debits	644,575	1,013,917	924,431	860,169
Capital Assets:				
Depreciable capital assets	91,792,426	95,025,311	102,148,892	103,115,003
Less accumulated depreciation	(33,465,307)	(34,953,142)	(36,396,406)	(37,169,626)
Sub-total	58,327,119	60,072,169	65,752,486	65,945,377
Land and improvements to land	387,100	387,100	387,100	387,100
Construction work in progress	1,943,086	5,996,293	6,877,921	7,822,782
Net Capital Assets	60,657,305	66,455,562	73,017,507	74,155,259
Total Assets	\$66,851,355	\$94,597,390	\$94,077,436	\$92,573,781

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(The Accountants' disclaimer of opinion
is an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

COMPARATIVE STATEMENT OF NET ASSETS
(Unaudited)

LIABILITIES	As of December 31st			As of
	2003	2004	2005	May 31, 2006
Current Liabilities:				
Accounts payable	\$703,573	\$115,036	\$750,697	\$687,347
Taxes payable	45,309	51,469	53,646	78,406
Accrued payroll and withholdings payable	116,528	170,150	150,779	163,693
Compensated absences	75,626	70,679	97,141	97,141
Contracts payable	218,322	1,782,443	432,317	
Retainage payable	49,823	466,077	507,978	98,940
Payable from restricted assets:				
Customer deposits	942,420	967,678	985,713	996,290
Accrued interest	284,705	602,489	686,367	560,332
Deposit on new extension estimates	21,055	21,055	21,055	21,055
Service charge due petitioners	1,500	1,500	1,500	1,500
Bonds payable	560,000	1,080,000	970,000	1,175,000
Total Current Liabilities	3,018,861	5,328,576	4,657,193	3,879,704
Noncurrent Liabilities:				
Bonds payable	10,640,000	34,940,000	33,165,000	31,990,000
Unamortized bond premium	2,821	5,126	4,391	4,292
Compensated absences			(123,630)	(118,947)
Total Noncurrent Liabilities	10,642,821	34,945,126	33,045,761	31,875,345
Total Liabilities	\$13,661,682	\$40,273,702	\$37,702,954	\$35,755,049
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	\$50,099,059	\$31,444,353	\$39,926,177	\$41,965,083
Restricted	1,881,367	20,378,766	12,606,145	11,179,230
Unrestricted	1,209,247	2,500,569	3,842,160	3,674,419
Total Net Assets	\$53,189,673	\$54,323,688	\$56,374,482	\$56,818,732

(The Accountants' disclaimer of opinion
is an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND
OTHER CHANGES IN FUND NET ASSETS**
(Unaudited)

	Calendar Year Ended			12 Months Ended May 31, 2006
	2003	2004	2005	
Operating Revenues:				
Residential	\$5,924,316	\$6,739,907	\$6,907,979	\$6,822,970
Commercial and industrial	4,183,205	4,792,513	4,837,580	4,897,692
Fire protection	1,264,609	1,455,260	1,493,624	1,496,092
Forfeited discounts	100,998	107,598	106,958	107,638
Other	193,561	203,568	304,254	304,316
Sewer utility portion of general expenses	1,551,761	1,625,100	2,225,868	2,242,587
Total Operating Revenues	<u>13,218,450</u>	<u>14,923,946</u>	<u>15,876,263</u>	<u>15,871,295</u>
Operating Expenses:				
Source of supply	165,059	171,001	181,039	187,905
Treatment	509,965	531,443	581,437	574,450
Transmission and distribution	1,549,203	1,595,307	1,648,169	1,624,075
Customer accounts	1,611,456	1,638,169	1,775,874	1,732,883
Administrative and general	7,761,243	8,155,062	8,123,155	8,449,481
Sub-totals	<u>11,596,926</u>	<u>12,090,982</u>	<u>12,309,674</u>	<u>12,568,794</u>
Depreciation expense	<u>2,000,285</u>	<u>1,838,692</u>	<u>1,978,047</u>	<u>1,968,881</u>
Total Operating Expenses	<u>13,597,211</u>	<u>13,929,674</u>	<u>14,287,721</u>	<u>14,537,675</u>
Net Operating Revenues	<u>(378,761)</u>	<u>994,272</u>	<u>1,588,542</u>	<u>1,333,620</u>
Nonoperating Revenues:				
Interest	63,748	70,655	198,472	225,705
Other	182,059	52,865	47,079	60,192
Totals	<u>245,807</u>	<u>123,520</u>	<u>245,551</u>	<u>285,897</u>
Nonoperating Expenses:				
Interest	570,060	539,493	517,648	346,747
Amortization	232,485	216,057	195,785	182,344
Other	43,832	27,155	32,547	46,679
Totals	<u>846,377</u>	<u>782,705</u>	<u>745,980</u>	<u>575,770</u>
Contributed Capital	<u>467,504</u>	<u>798,928</u>	<u>962,681</u>	<u>963,896</u>
Change In Net Assets	(511,827)	1,134,015	2,050,794	2,007,643
Total Net Assets - Beginning	<u>53,701,500</u>	<u>53,189,673</u>	<u>54,323,688</u>	<u>54,811,089</u>
Total Net Assets - Ending	<u><u>\$53,189,673</u></u>	<u><u>\$54,323,688</u></u>	<u><u>\$56,374,482</u></u>	<u><u>\$56,818,732</u></u>

(The Accountants' disclaimer of opinion
is an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

COMPARATIVE STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash
(Unaudited)

	Calendar Year Ended			12 Months Ended May 31, 2006
	2003	2004	2005	
Cash flows from operating activities:				
Cash received from customers	\$13,237,137	\$14,806,557	\$15,816,228	\$15,842,897
Cash paid to suppliers, employees and others	(11,362,886)	(12,662,219)	(11,828,986)	(12,819,619)
Net cash from operating activities	1,874,251	2,144,338	3,987,242	3,023,278
Cash flows from capital and related financing activities:				
Additions to capital assets	(3,791,511)	(7,636,949)	(7,683,017)	(6,454,778)
Proceeds from bond issue		25,380,000	9,245,000	
Redemption of 1997 Bonds			(10,307,303)	
Principal paid on revenue bonds	(535,000)	(560,000)	(1,080,000)	(970,000)
Interest paid	(583,182)	(552,173)	(1,216,446)	(1,300,303)
Contracts paid, bond issuance and rate case costs	(695,295)	1,216,944	(1,397,786)	(47,394)
Contributed capital	467,504	798,928	962,681	963,896
Retainage accrued/paid	12,042	416,254	41,901	(457,385)
Nonoperating revenues	182,059	52,865	47,079	60,192
Nonoperating expenses	(43,832)	(27,155)	(32,547)	(46,679)
Net cash from capital and related financing activities	(4,987,215)	19,088,714	(11,420,438)	(8,252,451)
Cash flows from investing activities:				
Interest income	64,984	109,248	225,294	193,948
Cash and Temporary Investments:				
Increase (Decrease)	(3,047,980)	21,342,300	(7,207,902)	(5,035,225)
Beginning balance	7,442,274	4,394,294	25,736,594	21,075,172
Ending balance	\$4,394,294	\$25,736,594	\$18,528,692	\$16,039,947

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(The Accountants' disclaimer of opinion
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EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

COMPARATIVE STATEMENT OF CASH FLOWS

**Increase (Decrease) in Cash
(Unaudited)**

	Calendar Year Ended			12 Months Ended May 31, 2006
	2003	2004	2005	
Reconciliation of net operating revenues to cash provided from operations:				
Net operating revenues	(\$378,761)	\$994,272	\$1,588,542	\$1,333,620
Adjustments to reconcile net operating revenue to net cash provided from operating activities:				
Depreciation expense	2,000,285	1,838,692	1,978,047	1,968,881
Change in assets and liabilities:				
Decrease (increase) in:				
Accounts receivable - customer	18,687	(117,389)	(22,521)	9,127
Accounts receivable - other			(37,514)	(37,525)
Advances for bad checks	(1,354)	(1,562)	3,122	5,156
Interfund services provided	(101,482)	(45,639)	(177,324)	(130,460)
Prepaid expenses	(6,363)	(9,405)	(1,520)	(307)
Customer deposits receivable	(7,367)	(6,187)	(6,554)	(6,447)
Increase (decrease) in:				
Accounts payable	411,288	(588,537)	635,661	(189,471)
Taxes payable	7,570	6,160	2,177	3,020
Accrued payroll and withholdings payable	(24,958)	53,622	(19,371)	23,702
Compensated absences payable	(60,107)	(4,947)	26,462	26,462
Customer deposits	16,813	25,258	18,035	17,520
Net cash provided from operations	<u>\$1,874,251</u>	<u>\$2,144,338</u>	<u>\$3,987,242</u>	<u>\$3,023,278</u>

(The Accountants' disclaimer of opinion
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EVANSVILLE (INDIANA) WATERWORKS DISTRICT

**COMPARISON OF ACCOUNT BALANCES
WITH MINIMUM BALANCES REQUIRED**

<u>Account</u>	<u>Account Balance at 5/31/06 *</u> (Unaudited)	<u>Minimum Balance Required **</u>	<u>Ref.</u>	<u>Variance</u>
Operating	\$3,273,336	\$1,786,359	(1)	\$1,486,977
Bond and interest	1,238,689	1,049,430	(2)	189,259
Debt service reserve	39,426		(3)	39,426
Improvement Fund		2,575,407	(4)	(2,575,407)
Cash with Fiscal Agent	93,637	93,637	(5)	
Customer Deposits	955,000	955,000	(5)	
Construction Fund	10,412,000	10,412,000	(5)	
Retainage and Other	<u>27,859</u>	<u>27,859</u>	(5)	
Totals	<u>\$16,039,947</u>	<u>\$16,899,692</u>		<u>(\$859,745)</u>

* Cash and investment balances.

** Per Bond Resolutions.

(1) A balance sufficient to provide for the payment of current operating expenses.

Pro forma operating expenses	\$14,290,871
Times 45 day factor	<u>0.1250</u>
Minimum Balance Required	<u>\$1,786,359</u>

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(The Accountants' disclaimer of opinion
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EVANSVILLE (INDIANA) WATERWORKS DISTRICT

(Cont'd)

**COMPARISON OF ACCOUNT BALANCES
WITH MINIMUM BALANCES REQUIRED**

- (2) The balance of this account should be equal to the accrued monthly transfers of 1/6 of the interest on all outstanding bonds payable on the then next succeeding interest payment date and 1/12th of the principal on all outstanding bonds payable on the then next succeeding principal payment date.

	<u>Amount</u>		<u>Factor</u>		<u>Months</u>		<u>Totals</u>
Principal due 1/01/07:							
2004 Bonds	\$510,000	x	1/12	x	5	=	\$212,500
2005 Bonds	665,000	x	1/12	x	5	=	277,083
Interest due 7/01/06:							
2004 Bonds	518,028	x	1/6	x	5	=	431,690
2005 Bonds	153,789	x	1/6	x	5	=	128,157
Minimum Balance Required							<u>\$1,049,430</u>

- (3) The utility has purchased a debt service reserve surety policy to satisfy this requirement.

- (4) No minimum balance required per the bond resolution. Calculated as follows:

One year's depreciation expense (see page 22)	\$2,062,300
Plus amount paid to Warrick County for water main agreement	<u>513,107</u>
Minimum Balance Suggested	<u>\$2,575,407</u>

- (5) Balances fully restricted.

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is an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

**SCHEDULE OF AMORTIZATION OF \$23,885,000 PRINCIPAL AMOUNT OF
OUTSTANDING WATERWORKS DISTRICT REVENUE BONDS OF 2004**

Principal payable annually January 1st.

Interest payable semi-annually, January 1st and July 1st.

Interest rates as indicated.

(Unaudited)

Payment Date	Principal		Interest Rate(s) (%)	Debt Service		Bond Year Total
	Balance	Principal		Interest	Total	
	(In thousands)			(-----In Dollars-----)		
07/01/07				\$510,378.14	\$510,378.14	
01/01/08	\$23,885	\$520	3.000	510,378.14	1,030,378.14	\$1,540,756.28
07/01/08				502,578.14	502,578.14	
01/01/09	23,365	535	3.250	502,578.14	1,037,578.14	1,540,156.28
07/01/09				493,884.39	493,884.39	
01/01/10	22,830	545	3.375	493,884.39	1,038,884.39	1,532,768.78
07/01/10				484,688.21	484,688.21	
01/01/11	22,285	565	3.625	484,688.21	1,049,688.21	1,534,376.42
07/01/11				474,446.88	474,446.88	
01/01/12	21,720	580	3.750	474,446.88	1,054,446.88	1,528,893.76
07/01/12				463,571.88	463,571.88	
01/01/13	21,140	600	4.000	463,571.88	1,063,571.88	1,527,143.76
07/01/13				451,571.88	451,571.88	
01/01/14	20,540	620	4.000	451,571.88	1,071,571.88	1,523,143.76
07/01/14				439,171.88	439,171.88	
01/01/15	19,920	650	4.000	439,171.88	1,089,171.88	1,528,343.76
07/01/15				426,171.88	426,171.88	
01/01/16	19,270	670	4.000	426,171.88	1,096,171.88	1,522,343.76
07/01/16				412,771.88	412,771.88	
01/01/17	18,600	695	4.000	412,771.88	1,107,771.88	1,520,543.76
07/01/17				398,871.88	398,871.88	
01/01/18	17,905	1,890	4.000	398,871.88	2,288,871.88	2,687,743.76
07/01/18				361,071.88	361,071.88	
01/01/19	16,015	1,980	4.250	361,071.88	2,341,071.88	2,702,143.76
07/01/19				318,996.88	318,996.88	
01/01/20	14,035	2,070	4.500	318,996.88	2,388,996.88	2,707,993.76
07/01/20				272,421.88	272,421.88	
01/01/21	11,965	2,170	4.500	272,421.88	2,442,421.88	2,714,843.76
07/01/21				223,596.88	223,596.88	
01/01/22	9,795	2,275	4.500	223,596.88	2,498,596.88	2,722,193.76
07/01/22				172,409.38	172,409.38	
01/01/23	7,520	2,385	4.500	172,409.38	2,557,409.38	2,729,818.76
07/01/23				118,746.88	118,746.88	
01/01/24	5,135	2,505	4.625	118,746.88	2,623,746.88	2,742,493.76
07/01/24				60,818.75	60,818.75	
01/01/25	2,630	2,630	4.625	60,818.75	2,690,818.75	2,751,637.50
Totals		<u>\$23,885</u>		<u>\$13,172,339.14</u>	<u>\$37,057,339.14</u>	<u>\$37,057,339.14</u>

(The Accountants' disclaimer of opinion
is an integral part of this statement.)

EVANSVILLE (INDIANA) WATERWORKS DISTRICT

**SCHEDULE OF AMORTIZATION OF \$8,105,000 PRINCIPAL AMOUNT OF
OUTSTANDING WATERWORKS DISTRICT REFUNDING BONDS OF 2005**

Principal payable annually January 1st.

Interest payable semi-annually, January 1st and July 1st.

Interest rates as indicated.

(Unaudited)

Payment Date	Principal Balance	Principal	Interest Rate(s)	Debt Service		Bond Year Total
				Interest	Total	
	(In thousands)		(%)	(-----In Dollars-----)		
07/01/07				\$143,813.75	\$143,813.75	
01/01/08	\$8,105	\$685	3.00	143,813.75	828,813.75	\$972,627.50
07/01/08				133,538.75	133,538.75	
01/01/09	7,420	705	3.00	133,538.75	838,538.75	972,077.50
07/01/09				122,963.75	122,963.75	
01/01/10	6,715	730	3.25	122,963.75	852,963.75	975,927.50
07/01/10				111,101.25	111,101.25	
01/01/11	5,985	760	3.30	111,101.25	871,101.25	982,202.50
07/01/11				98,561.25	98,561.25	
01/01/12	5,225	790	3.40	98,561.25	888,561.25	987,122.50
07/01/12				85,131.25	85,131.25	
01/01/13	4,435	815	3.60	85,131.25	900,131.25	985,262.50
07/01/13				70,461.25	70,461.25	
01/01/14	3,620	850	3.70	70,461.25	920,461.25	990,922.50
07/01/14				54,736.25	54,736.25	
01/01/15	2,770	885	3.85	54,736.25	939,736.25	994,472.50
07/01/15				37,700.00	37,700.00	
01/01/16	1,885	920	4.00	37,700.00	957,700.00	995,400.00
07/01/16				19,300.00	19,300.00	
01/01/17	965	965	4.00	19,300.00	984,300.00	1,003,600.00
Totals		<u>\$8,105</u>		<u>\$1,754,615.00</u>	<u>\$9,859,615.00</u>	<u>\$9,859,615.00</u>

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